

VZCZCXRO4829
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGP #0631/01 1831022
ZNR UUUUU ZZH
R 021022Z JUL 09
FM AMEMBASSY SINGAPORE
TO RUEHC/SECSTATE WASHDC 6916
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 3012
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMCSSU/DEPT OF ENERGY WASHINGTON DC

UNCLAS SECTION 01 OF 02 SINGAPORE 000631

SENSITIVE
SIPDIS

EAP/MTS - MCOPPOLA

E.O. 12958: N/A
TAGS: [ENRG](#) [EPET](#) [EINV](#) [ECON](#) [SN](#)

SUBJECT: GOS TAKES OVER LNG TERMINAL PROJECT

REF: 08 SINGAPORE 1248

¶1. (SBU) SUMMARY: The GOS has taken over ownership and development of Singapore's first liquefied natural gas (LNG) terminal after the companies developing the project struggled to secure financing that would keep the terminal on track for a 2012 deadline. The LNG terminal is considered critical to Singapore's energy security strategy, which includes diversifying energy sources and reducing Singapore's dependence on piped natural gas from Malaysia and Indonesia. Several oil and gas projects in Singapore have been postponed or cancelled as a result of the global financial crisis, but local contacts at U.S. energy firms said they are taking the economic downturn in stride and have been able to continue operations as planned. PetroChina is proceeding with its acquisition of Singapore Petroleum. End Summary.

GOS Takes Over LNG Terminal Project

¶2. (SBU) Senior Minister of State for Trade and Industry, and Education, S. Iswaran, made a surprise announcement at a June 30 energy conference that the GOS would assume ownership and development of Singapore's first liquefied natural gas (LNG) terminal because the two companies developing the terminal were facing financing issues as a result of the economic downturn. The Energy Market Authority (EMA) of Singapore designated in 2007 PowerGas Limited (PowerGas) as the LNG terminal owner and operator. PowerGas is a subsidiary of Singapore Power Limited, which is owned by Singapore sovereign wealth fund Temasek Holdings. PowerGas partnered with French firm GDF Suez and completed much of the engineering design for the terminal, according to a June 30 EMA statement. However, recently PowerGas and GDF Suez decided that they would have to delay the SGD 1 billion (USD 694 million) terminal at least two to three years as the global financial crisis and lower demand for LNG made the financing and commercial viability of the terminal more challenging, the EMA statement continued.

¶3. (SBU) The GOS stepped in to assume ownership and development of the LNG terminal to ensure the terminal could be operational as soon as possible. Singapore generates 80 percent of its electricity from natural gas piped from Indonesia and Malaysia. The GOS considers the LNG terminal critical to its energy security (reftel) because it would allow Singapore to import gas from more diverse sources (e.g., Egypt, Qatar). EMA will set up a new company called the Singapore LNG Corporation Pte Ltd. to facilitate the GOS takeover. EMA anticipates that the terminal will be operational in 2013, only a year later than originally planned, Jenny Teo, EMA Corporate Communications Director told Econoff on July 2. EMA still must determine how the GOS financing for the terminal will be structured. Once the terminal is operational and market conditions improve, EMA may decide to divest the LNG terminal but no timeline has been set, Teo said.

¶4. (SBU) Teo confirmed that BG Asia Pacific Pte Ltd., a subsidiary

of BG Group, will remain the designated LNG aggregator once the terminal comes online, giving BG the sole right to import LNG into Singapore. The GOS had previously set strict limitations on imports of piped natural gas to help protect the LNG terminal developers' investment by ensuring demand for LNG. The new GOS entity, Singapore LNG Corporation, should likewise benefit from the limits on further imports of piped natural gas.

Other Energy Projects Delayed

¶ 15. (SBU) The financial crisis and drop in prices for oil and gas have caused other companies to delay or cancel energy-related projects in Singapore. Jurong Aromatics Corporation, a petrochemical firm, said in May that it would delay its SGD 2.4 billion (USD 1.66 billion) aromatics project, pushing it back two years to 2013. Also in May, JTC Corporation, Singapore's lead industrial land developer and manager, announced that it canceled a tender for development of an underground rock cavern for oil storage in Singapore and would reissue the tender after approximately three years.

Taking the Downturn in Stride

¶ 16. (SBU) Contacts from both Chevron and ExxonMobil told Econoff that their businesses have been hit by lower oil prices and less demand in Singapore for bunker fuel. However, they were sanguine about the downturn and indicated that they intend to forge ahead with most projects as planned, noting that Asia is still a growth market. Chevron contacts said that they have not had to lay off any local staff. Chevron and Exxon contacts anticipate that Singapore

SINGAPORE 00000631 002 OF 002

will remain a major refining hub for some time, but acknowledge that there will be more competition from refineries being built in India, Vietnam and China. ExxonMobil is focusing its Singapore business on the higher-value specialty chemicals business as a result.

¶ 17. (SBU) The silver lining of the downturn has been the easing of construction and material costs. A contact at FMC Technologies told Econoff that the larger energy firms have been delaying projects, in part, to lock in lower costs and that more companies will kick-start projects as oil prices rise. He said that USD 60 a barrel was a number "resonating" with many of his contacts as a benchmark for when many projects would be more viable.

PetroChina Acquiring Singapore Petroleum

¶ 18. (SBU) PetroChina Company Limited purchased 45.5 percent of Singapore Petroleum in June with the expectation that it would buy the remainder of Singapore Petroleum in July. Singapore Petroleum jointly owns Singapore Refining Company with Chevron. Chevron contacts said they view the acquisition by PetroChina favorably, noting that Chevron and PetroChina have previously partnered on other projects outside Singapore. PetroChina is unlikely to ship much of the refined product manufactured in Singapore back to mainland China, Lok Kheng Ling, Chevron Singapore's General Manager for Products Supply and Trading told Econoff. PetroChina's acquisition is more likely a bid to expand its exports and oil trading capacity, she surmised.

SHIELDS